

Report of the Directors

The directors are pleased to present their report together with the audited financial statements of Natural Beauty Bio-Technology Limited (hereinafter as the “Company”) and its subsidiaries (together with the Company hereinafter as the “Group”) for the year ended 31 December 2001.

GROUP REORGANISATION

The Company was incorporated in the Cayman Islands on 29 June 2001 as an exempted company with limited liability under the Companies Law of the Cayman Islands.

Pursuant to a group reorganization (the “Reorganization”) in connection with the listing of the Company’s shares on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company became the ultimate holding company of the other companies comprising the Group on 11 March 2002. Further details of the Reorganization are set out in the Company’s Prospectus dated 19 March 2002. The shares of the Company were listed on the Stock Exchange on 28 March 2002.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Company’s subsidiaries are (i) manufacture and sales of skin care, beauty and aromatherapeutic products; and (ii) provision of beauty treatments, SPA services and skin care consulting and training. Other activities and particulars of the Group’s subsidiaries are set out in Note 1 to the financial statements.

SEGMENT INFORMATION

An analysis of the Group’s turnover and results by geographical location of customers for the year ended 31 December 2001 is set out in Note 3 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2001 are set out on page 2 of the financial statements.

As stated in the Company’s Prospectus dated 19 March 2002, interim dividends totalling HK\$39,678,000 (2000: HK\$ 66,850,000) were paid by certain subsidiaries of the Company to their then shareholders prior to the Reorganisation described in Note 1 to the financial statements.

The directors recommend the payment of a final dividend of HK\$ 0.01148 per ordinary share in respect of the year ended 31 December 2001, subject to the approval by shareholders at the forthcoming annual general meeting.

RESERVES

Details of the movements in the reserves of the Group during the year are set out in Note 20 to the financial statements.

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USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The proceeds from the Company's issue of new shares at the time of its listing on the Stock Exchange on 28 March 2002, after deduction of related issuance expenses, amounting to approximately HK\$254 million. None of the proceeds has been utilised and they, at the date of this report, deposited with banks. The directors are of the opinion that the remaining proceeds will be applied to their intended use as set out in the Company's Prospectus dated 19 March 2002.

SUMMARY OF FINANCIAL INFORMATION

The following is a summary of the consolidated results and of the assets and liabilities of the Group for the years ended 31 December 1998, 1999, 2000 and 2001, prepared on the bases set out in the note below:

RESULTS

	Year ended 31 December			
	1998	1999	2000	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	<u>185,432</u>	<u>199,548</u>	<u>205,514</u>	<u>257,426</u>
Profit from operating activities	63,236	74,413	77,149	76,444
Finance income, net	1,398	1,170	800	564
Income from short-term investments	2,392	2,696	3,310	3,017
Share of profit of an associate	—	—	—	73
Others, net	<u>1,784</u>	<u>1,701</u>	<u>148</u>	<u>2,084</u>
Profit before tax	68,810	79,980	81,407	82,182
Income tax expense	<u>(8,859)</u>	<u>(12,917)</u>	<u>(11,330)</u>	<u>(12,464)</u>
Profit after tax	59,951	67,063	70,077	69,718
Minority interests	<u>(227)</u>	<u>962</u>	<u>56</u>	<u>1,325</u>
Net profit for the year	<u><u>59,724</u></u>	<u><u>68,025</u></u>	<u><u>70,133</u></u>	<u><u>71,043</u></u>

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SUMMARY OF FINANCIAL INFORMATION (continued)

ASSETS AND LIABILITIES

	31 December			
	1998	1999	2000	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current assets	287,319	316,329	356,433	388,587
Current assets	203,757	260,042	247,202	258,902
Total assets	491,076	576,371	603,635	647,489
Current liabilities	149,936	183,145	127,758	158,101
Non-current liabilities	4,856	6,080	6,665	6,776
Total liabilities	154,792	189,225	134,423	164,877
Minority interests	12,131	11,467	4,316	28,269
Net assets	324,153	375,679	464,896	454,343

Note:

The summary of the consolidated results, assets and liabilities of the Group for the years ended 31 December 1998, 1999 and 2000 have been extracted from the Company's Prospectus dated 19 March 2002. The results of the Group for the year ended 31 December 2001 and the assets and liabilities of the Group as at that date are those set out on pages 25 to 70 of the financial statements, respectively. The summary of the consolidated results, assets and liabilities of the Group includes the results, assets and liabilities of the Company and its subsidiaries as if the current structure of the Group has been in existence throughout the years ended 31 December 1998, 1999, 2000 and 2001, and is presented on the basis set out in Note 1 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of the movements in property, plant and equipment and investment properties are set out in Note 11 and Note 12 to the financial statements respectively.

SUBSIDIARIES

Particulars of the Group's subsidiaries as at 31 December 2001 are set out in Note 1 to the financial statements.

SHARE CAPITAL

Details of the movement in share capital of the Group are set out in Note 20 to the financial statements.

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PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association and there is no restriction against such rights under the laws in Cayman Islands.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

The Company's shares were listed on the Stock Exchange on 28 March 2002. Save as disclosed above, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year and up to the date of this report.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2001, the Group's largest customer accounted for approximately 2.39% of the Group's turnover, and the aggregate amount of turnover attributable to the Group's five largest customers represented approximately 7.88% of the Group's total turnover.

The largest supplier for the year ended 31 December 2001 represented approximately 9.67% of the Group's total purchases (not including purchases of a capital nature), and the combined total of the five largest suppliers accounted for approximately 34.30% of the Group's total purchases for the year.

At no time during the year have the directors, their associates or any shareholder of the Company who to the knowledge of the directors owns more than 5 percent of the Company's issued share capital had any interests in these major customers and suppliers.

DIRECTORS

The directors who held office during the year and up to the date of this report are:

Executive Directors:

Dr. Tsai Yen Yu (alias Dr. Tsai Yen Ping) (appointed on 29 June 2001)

Mr. Lee Ming Ta (alias Mr. Lee Ming Tah) (appointed on 29 June 2001)

Mr. Su Chien Cheng (appointed on 29 June 2001)

Non-Executive Director:

Ms. Su Sh Hsyu (appointed on 29 June 2001)

Independent Non-Executive Directors:

Mr. Yeh Liang Fei (appointed on 11 March 2002)

Mrs. Chen Shieh Shu Chen (appointed on 11 March 2002)

In accordance with the Company's articles of association, Mr. Lee Ming Ta and Mr. Su Chien Cheng will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

Each of the non-executive director and independent non-executive directors is currently appointed for a term of three years commencing from 11 March 2002.

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BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 12 to 14 of this report.

DIRECTORS' SERVICE CONTRACTS

Each of Dr. Tsai Yen Yu, Mr. Lee Ming Ta and Mr. Su Chien Cheng, executive director of the Company, has entered into a director's service agreement dated 11 March 2002 with the Company under which they have been appointed to act as executive directors for an initial term of three years commencing from 11 March 2002 and shall continue thereafter until terminated by either party giving to the other not less than three calendar months' notice in writing. The initial aggregate annual remuneration pursuant to such agreements is HK\$2,300,000 (as to HK\$1,000,000 to Dr. Tsai Yen Yu, HK\$700,000 to Mr. Lee Ming Ta and HK\$600,000 to Mr. Su Chien Cheng) subject to an annual increment at the discretion of the directors of not more than 10% of the annual remuneration immediately prior to such increase.

Under the present arrangements, Ms. Su Sh Hsyu, non-executive director of the Company, Mr. Yeh Liang Fei and Mrs. Chen Shieh Shu Chen, independent non-executive directors of the Company, are entitled to HK\$500,000, HK\$20,000 and HK\$20,000, respectively as annual remuneration.

Each of Dr. Tsai Yen Yu, Mr. Lee Ming Ta, Mr. Su Chien Cheng and Ms. Su Sh Hsyu is also entitled to a management bonus. The aggregate amount of the bonuses payable to all executive directors and the non-executive director will not exceed 15% of the audited consolidated profit after taxation and minority interests but before extraordinary items of the Group in respect of that financial year of the Company.

Save as disclosed above, no director has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

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DIRECTORS' INTERESTS IN SECURITIES

As at the date of this report, the interests of the directors and the chief executive of the Company in the equity securities of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) as recorded in the register required to be kept pursuant to Section 29 of the SDI Ordinance or as otherwise notified to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance and the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

Interests in the ordinary shares of the Company:

Name of director	Number of ordinary shares				Number of share options
	Personal interests	Family interests	Corporate interests	Other interests	
Dr. Tsai Yen Yu	—	—	1,500,000,000	—	—
Mr. Su Chien Cheng	—	—	225,000,000	—	—
Ms. Su Sh Hsyu	—	—	225,000,000	—	—
Mr. Lee Ming Ta	—	1,500,000,000	—	—	—

Other than as disclosed above, none of the directors, the chief executive or their associates had any personal, family, corporate or other interests in the securities of the Company or any of its associated corporations as defined in the SDI Ordinance as at the date of this report.

DIRECTORS' RIGHTS TO ACQUIRE SHARES IN THE COMPANY

The Company has a Share Option Scheme (the "Scheme"), under which it may grant options to employees (including executive directors) of the Company to subscribe for ordinary shares in the Company. Particulars of the Scheme are set out in Appendix VI of the Company's Prospectus dated 19 March 2002.

Since the Scheme has been adopted for a period of 10 years commencing from 11 March 2002, subsequent to 31 December 2001, therefore, at no time during the year was the Company or any of its holding companies and subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of the directors, their spouses or their children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

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SUBSTANTIAL SHAREHOLDERS

The Company became a listed company on 28 March 2002. The register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that, other than the interests disclosed above in respect of certain directors, the following shareholders had a beneficial interest of 10 per cent or more in the issued share capital of the Company as at 28 March 2002:

Name	Note	Number of ordinary shares	Percentage of the Company's issued share capital
Efficient Market Investments Limited ("Efficient Market")	1	1,500,000,000	75.00%
Knightcote Enterprises Limited ("Knightcote")	2	1,500,000,000	75.00%
Dr. Tsai Yen Yu	3	1,500,000,000	75.00%
Mr. Su Chien Cheng	4	225,000,000	11.25%
Ms. Su Sh Hsyu	5	225,000,000	11.25%

Notes:

1. Efficient Market is beneficially owned by Knightcote.
2. Knightcote is beneficially owned by Dr. Tsai Yen Yu as to 70%, Mr. Su Chien Cheng as to 15% and Ms. Su Sh Hsyu as to 15%.
3. These shares are attributable to Dr. Tsai Yen Yu in respect of 70% interest in Knightcote.
4. These shares are attributable to Mr. Su Chien Cheng in respect of 15% interest in Knightcote.
5. These shares are attributable to Ms. Su Sh Hsyu in respect of 15% interest in Knightcote.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in Notes 15, 25 and 27 to the financial statements, no director had a significant beneficial interest, either direct or indirect, in any contracts of significance to the business of the Group to which the Company or any of its holding companies and subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year and up to date of this report, no director is considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group, as defined by the Listing Rules, other than those businesses of which the directors of the Company have been appointed as directors to represent the interests of the Company and/or the Group.

MANAGEMENT CONTRACT

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

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CONNECTED TRANSACTIONS

Details of the connected transactions that are required to be disclosed for the year ended 31 December 2001 are set out in Notes 15, 25 and 27 to the financial statements. Save as disclosed therein, the following transactions would constitute connected transactions, as defined in the Listing Rules, should the Company's shares become listed on the Stock Exchange at the date of these transactions:

Shanghai Natural Beauty Sanlian Cosmetics Co., Ltd., a 90% owned subsidiary of the Company, has entered into distribution agreements with each of its twenty-five non-wholly owned subsidiaries in the PRC on 31 March 2001 for the sale of products manufactured by the Group to the subsidiaries. In the opinion of the directors (including the independent non-executive directors) of the Company, these sale and purchase transactions are entered into on normal commercial terms and in the ordinary and usual course of business, and are fair and reasonable and in the interests of the shareholders of the Company as a whole. The Company has been granted by the Stock Exchange a conditional waiver from strict compliance with the disclosure requirements for the aforesaid non-exempted continuing connected transactions for a period of three financial years ending 31 December 2004.

Particulars of the transactions and conditional waiver from strict compliance with the disclosure requirements are set out in the Company's Prospectus dated 19 March 2002.

BANK BORROWINGS

Details of the bank borrowings of the Group as at 31 December 2001 are set out in Note 25 to the financial statements.

RETIREMENT SCHEMES

Particulars of retirement schemes are set out in Note 21 to the financial statements.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice (the "Code") as set out in appendix 14 of the Listing Rules of the Stock Exchange, since the listing of the Company's share on the Stock Exchange on 28 March 2002.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the two independent non-executive directors of the Company.

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AUDITORS

Arthur Andersen & Co retire and, being eligible, offer themselves for reappointment. A resolution for the reappointment of Arthur Andersen & Co as auditors of the Company is to be proposed at the forthcoming annual general meeting.

By the order of the board

Dr. Tsai Yen Yu

Chairman

Hong Kong

25 April 2002